

Livingston Parish Sewer District No. 2

Annual Financial Statements

As of and for the Year Ended December 31, 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 10/20/10

Livingston Parish Sewer District No. 2

**Annual Financial Statements
As of and for the Year Ended December 31, 2009
With Supplemental Information Schedules**

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MALCOLM M. DIENES, L.L.C.
LEROY J. CHUSTZ, C.P.A.

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

Board of Commissioners
Livingston Parish Sewer District No. 2
Denham Springs, Louisiana

Except as discussed in the following paragraphs, we have audited the accompanying basic financial statements of the Livingston Parish Sewer District No. 2 (the District), a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2009, as listed in the Table of Contents. These basic financial statements are the responsibility of Livingston Parish Sewer District No. 2's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*. Those standards and the guide require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 8 to the financial statements, the District failed to meet several debt covenant requirements relating to transaction processing and financial statement ratio maintenance as outlined in the Bond Resolutions of the 1984 Series, 1997-B Series, and 2004 Series Bond issuances as of and for the year ended December 31, 2009.

In our opinion, except for the effects on the financial statements of the matter discussed in the preceding paragraph, the basic financial statements referred to above present fairly, in all material respects, the financial position and the results of operations and cash flows of the Livingston Parish Sewer District Two, as of December 31, 2009, and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, we call attention to a Long Term Commitment entered into by and between the Livingston Parish Sewer District No. 2 and the Livingston Parish Council.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010, on our consideration of the Livingston Parish Sewer District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of

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laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Supplemental Schedules, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Malcolm M. Dienes, L.L.C.

Leroy J. Chustz, CPA

Denham Springs, Louisiana

September 30, 2010

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REQUIRED SUPPLEMENTAL INFORMATION (PART I)
Management's Discussion and Analysis

Livingston Parish Sewer District No. 2

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

This section of the Livingston Parish Sewer District No 2's (the District's) annual financial report presents our discussion and analysis of the District's financial performance during this fiscal year. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the additional information stated in the attached financial statements and footnotes.

OVERVIEW OF FINANCIAL STATEMENTS

The following narrative illustrates the minimum requirements as established by Governmental Accounting Standards Board Statement 34 as it pertains to the Livingston Parish Sewer District No. 2.

1. ****MANAGEMENT DISCUSSION and ANALYSIS****
 2. ****BASIC FINANCIAL STATEMENTS****
 3. ****REQUIRED SUPPLEMENTARY INFORMATION****
-

BASIC FINANCIAL STATEMENTS:

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the operations of Sewer District No. 2 of Livingston Parish as a whole and present a longer-term view of the current District finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities report the District's net assets and changes in them. The net difference between the assets and liabilities measures the health of the District's finances. Increases or decreases are noted as a measurement for your evaluation of the financial position of the District.

Livingston Parish Sewer District No. 2

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

FINANCIAL HIGHLIGHTS:

- 1 – District has cash and investments inclusive of restricted accounts of \$785,558 on 12-31-09 representing a decrease of \$431,514 from prior year end. The District purchased major pump equipment in 2009 in the amount of \$283,344 after the damages in the 2008 Hurricane Gustav and made major repairs on manholes and lift stations with cash reserves.
- 2 – District had accounts receivable of \$321,260 on 12-31-09 representing an increase of \$190,137 from prior year end.
- 3 – District had prepaid insurance of \$9,247 on 12-31-09 representing a decrease of \$37,209 from prior year end.
- 4 – District had land, plant facilities and equipment net of accumulated depreciation of \$9,055,005 on 12-31-09 representing a decrease of \$95,288 from prior year end. Depreciation expense totaled \$378,632 as per GASB Statement 34 Guidelines on Capital Assets and Depreciation.
- 6 – District had capital purchases and asset improvements placed in service of \$283,344 during period ended 12-31-09. Major pumps, pump station covers, and a portable pump were purchased for flow efficiencies and system service stability.
- 7 – District had sewer service sales and sewer maintenance fees of \$1,049,974, along with \$254,091 of non-operating income which included a portion of Storm reimbursement income from FEMA on 12-31-09.
- 8 – District had net loss from all operations of \$265,093 on 12-31-09 which includes the \$378,632 of depreciation expense in operating expenses. The two year period of 2008 and 2009 reflects unusual storm related expenses for repairs and maintenance in conjunction to the aftermath of Hurricane Gustav on 9-1-2008.

Livingston Parish Sewer District No. 2

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

FINANCIAL ANALYSIS OF THE DISTRICT:

The following is a condensed Statement of Net Assets at December 31, 2009 and 2008:

	2009	2008
Current and other assets	\$ 556,122	\$ 876,128
Cash assets restricted	825,109	791,009
Capital Assets (Net)	<u>9,055,005</u>	<u>9,150,293</u>
Total Assets	<u>10,436,236</u>	<u>10,817,430</u>
Current liabilities	38,811	39,343
Other Liabilities	227,608	225,915
Long Term Debt Payable	<u>5,219,086</u>	<u>5,336,348</u>
Total Liabilities	<u>5,485,505</u>	<u>5,601,606</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	3,344,708	3,316,807
Restricted	829,109	791,009
Unrestricted	<u>780,914</u>	<u>1,108,008</u>
Total Net Assets	<u>\$ 4,950,731</u>	<u>\$ 5,215,824</u>

Net assets of the District decreased by \$265,093 from the previous year resulting from operating expenses and depreciation exceeding operating and non-operating revenues for 12-31-09. Hurricane Gustav damages and system repairs required use of asset reserves.

GENERAL REVENUE INFORMATION:

The District receives no ad-valorem taxes or sales taxes, but rather is a customer-user based system whereby customers of the District pay service fees on sewer usage by previously established sewer rates. New customers pay connection fees when being added for service along with a service deposit to cover a reasonable monthly sewerage bill, which is reserved. The District has experienced a modest growth in the past six year period with a forecast of continued growth in 2010 and beyond. The customer base has grown from an approximate 1,050 customers in 1998 to a billable customer count of 2,591 by the close of 12-31-09. The 2008 prior year customer count equaled 2,557

Livingston Parish Sewer District No. 2

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

The following is a condensed Statement of Activities for the fiscal year ended December 31, 2009 and 2008:

	2009	2008
Sewer Service Sales – Operations	\$ 1,049,974	\$ 1,029,585
Non-Operating Revenues	<u>254,091</u>	<u>89,751</u>
Total Revenues	1,304,065	1,119,336
Depreciation/Amortization Expense	(386,252)	(368,801)
District Operating Expenses	(870,190)	(825,787)
District Non-Operating Expenses	<u>(312,716)</u>	<u>(302,764)</u>
Total Expenses	<u>(1,569,158)</u>	<u>(1,497,352)</u>
Change in Net Assets	(265,093)	(378,016)
Beginning Net Assets	<u>5,215,824</u>	<u>5,593,840</u>
Ending Net Assets	<u>\$ 4,950,731</u>	<u>\$ 5,215,824</u>

District total operating revenues increased by \$37,840 and non-operating revenues increased by \$164,340 respectively from the previous year. The total cost of operations increased by \$36,783 and non operating expenses increased by \$9,952 from the previous year due to the following summary of items:

- (A) increase in payroll and employee insurance – (\$22,932)
- (B) decrease in interest expense – \$4,968
- (C) decrease in repairs and system maintenance/supplies/ Fuel – \$26,431
- (D) increase in depreciation expense – (\$17,451)
- (E) increase in Fema revenue – \$ 191,013
- (F) increase in utilities, insurance, professional fees and licenses (\$ 39,252)
- (G) decrease in interest income (\$26,673)

MAINTENANCE PRIORITIES:

The District has completed a third year of major improvements to manholes in the District by a selected refurbishment process to decrease infiltration. System maintenance expenses increased also due to many older pump repairs being realized as a continuing result of damages to the overall system from Hurricane Gustav power interruptions in during 2008 and toward stress on operating equipment in 2009.

The following is a detail of capital assets and corresponding accumulated depreciation as of and for the year ended December 31, 2009 and 2008:

Livingston Parish Sewer District No. 2

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

	<u>2009</u>	<u>2008</u>
Land	\$ 138,134	\$ 138,134
Construction in Progress	11,103	11,103
Sewer Systems & Equipment	13,377,886	13,094,542
Accumulated Depreciation	<u>(4,472,118)</u>	<u>(4,093,486)</u>
Sewer Systems & Equipment, Net	<u>8,905,768</u>	<u>9,001,056</u>
Total Capital Assets, Net	\$ <u>9,055,005</u>	\$ <u>9,150,293</u>

DEBT:

District has a total outstanding debt of \$5,336,094 as of 12-31-2009. Debt is composed of three revenue bond obligations which financed the original infrastructure and a 2004 series bond that financed the state of the art sewer treatment plant.

On December 22, 2009, the Livingston Parish Council (the Council) issued a 2009 Series Revenue Bond in an amount of \$2,500,000 on behalf of the District relating to a lift station refurbishment project. Additionally, on December 22, 2009 the Council entered into an agreement with the District whereby the District will make the required monthly principal interest payments on the 2009 Series Bond through maturity. The first payment on the bond obligation is due on January 25, 2010 and will continue on a monthly basis for 30 years.

FUTURE REVENUES:

On January 1, 2010, new billing rate increases for the customers of the District were enacted which will substantially increase District revenues in order to cover both routine system maintenance expenditures and a comprehensive capital outlay project for which Livingston Parish Council issued the aforementioned 2009 Series Revenue Bond on behalf of the District. As previously mentioned, the Bond Issuance is to fund a \$2,500,000 lift station refurbishment project within the next two years. The new billing rates will cover the future 30 year obligation to the Livingston Parish Council and build cash reserves to levels experienced prior to the Hurricane Gustav storm event.

CONTACTING LIVINGSTON PARISH SEWER DISTRICT TWO'S MANAGEMENT:

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to show Livingston Parish Sewer District No. 2's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Manager, Jamie Fontenot, P.O. Box 1059, Denham Springs, LA 70727.

BASIC FINANCIAL STATEMENTS

LIVINGSTON PARISH SEWER DISTRICT NO. 2
Denham Springs, Louisiana

Statement of Net Assets
As of December 31, 2009

ASSETS	
Current Assets	
Accounts Receivable, Net:	\$ 75,030
Due From FEMA	246,230
Prepaid Insurance	9,247
Total Current Assets	330,507
Restricted Assets	
Restricted Cash and Cash Equivalents	785,558
Total Restricted Assets	785,558
Property, Plant & Equipment	
Land	138,134
Construction in Progress	11,103
Property, Plant & Equipment, Net	8,905,768
Total Property, Plant & Equipment	9,055,005
Other Assets	
Bond Issue Costs, Net	263,603
Meter Deposits	1,563
Total Other Assets	265,166
Total Assets	10,436,236
LIABILITIES	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	33,051
Other Accrued Payables,	5,760
Total Current Liabilities (Payable From Current Assets)	38,811
Current Liabilities (Payable from Restricted Assets)	
Accrued Interest Payable	110,600
Revenue Bonds Payable	117,008
Total Current Liabilities (Payable from Restricted Assets)	227,608
Long-Term Liabilities	
Bond Payable	5,219,086
Total Long-Term Liabilities	5,219,086
Total Liabilities	5,485,505
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,344,708
Restricted for	
Debt Service	591,818
Capital Projects	233,291
Unrestricted	780,914
Total Net Assets	\$ 4,950,731

The accompanying notes are an integral part of this financial statement.

LIVINGSTON PARISH SEWER DISTRICT NO. 2
Denham Springs, Louisiana

Statement of Activities
For the Year Ended December 31, 2009

OPERATING REVENUES	
Sewer Fees	\$ 842,938
Sewer #1 Maintenance Revenue	150,644
Permits & Inspection Fees	7,487
User & Hook-up Fees	6,470
Impact Fees	36,819
Other Operating Income	<u>5,616</u>
Total Operating Revenues (Note 7)	<u>1,049,974</u>
OPERATING EXPENSES	
Salaries and Wages	300,985
Payroll Taxes & Group Insurance	53,993
Per Diem	3,060
Amortization	7,620
Depreciation	378,632
Fuel/Oil Trucks	15,391
Insurance	72,544
Licenses & Permits	4,102
Office Expense	1,668
Other	12,574
Professional Fees	29,516
Repairs and Maintenance	228,734
Supplies	28,509
Telephone	17,602
Uniform Expense	4,775
Utilities	<u>96,737</u>
Total Operating Expenses	<u>1,256,442</u>
Operating Loss	<u>(206,468)</u>
NON-OPERATING REVENUES	
Interest Income	1,665
FEMA Reimbursement	252,426
Interest Expense	(267,030)
Storm Expense	<u>(45,686)</u>
Total Non-Operating Expenses	<u>(58,625)</u>
Change in Net Assets	<u>(265,093)</u>
Total Net Assets, Beginning	<u>5,215,824</u>
Total Net Assets, Ending	<u>\$ 4,950,731</u>

The accompanying notes are an integral part of this financial statement.

LIVINGSTON PARISH SEWER DISTRICT NO. 2
Denham Springs, Louisiana

Statement of Cash Flows
For the Year Ended December 31, 2009

Cash Flows From Operating Activities	
Received From Customers	\$ 888,394
Other Receipts	156,260
Payments for Operations	(475,793)
Payments to Employees	<u>(357,721)</u>
Net Cash Provided by Operating Activities	<u>211,140</u>
Cash Flows From Capital and Related Financing Activities	
Payments for Storm Expenses	(45,686)
Proceeds from FEMA Reimbursements	67,609
Payments for Capital Acquisitions	(283,344)
Principal Repayments for Long-Term Debt	(113,855)
Interest Payments for Long-Term Debt	<u>(268,756)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(644,032)</u>
Cash Flows From Investing Activities	
Receipt of Interest	1,665
Proceeds from Sale of Investments	<u>277,627</u>
Net Cash Provided by Investing Activities	<u>279,292</u>
Net Cash Decrease in Cash and Cash Equivalents	(153,600)
Cash and Cash Equivalents, Beginning of Year	<u>939,158</u>
Cash and Cash Equivalents, End of Year	<u>\$ 785,558</u>
Reconciliation of Cash & Cash Equivalents to the Statement of Net Assets	
Cash & Cash Equivalents, Restricted	<u>\$ 785,558</u>
Total Cash & Cash Equivalents	<u>\$ 785,558</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Loss	\$ (206,468)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation and Amortization	386,252
Increase in Accounts Receivable	(5,320)
Decrease in Prepaid Insurance	37,209
Decrease in Accounts Payable for Operating Activities	(850)
Increase in Accrued Payroll for Operating Activities	<u>317</u>
Net Cash Provided by Operating Activities	<u>\$ 211,140</u>

The accompanying notes are an integral part of this financial statement.

BASIC FINANCIAL STATEMENTS
Notes to the Financial Statements

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

Introduction

Livingston Parish Sewer District Two (the District) was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on October 26, 1974, pursuant to the provisions of R.S. 33:3881, et. seq., of the Louisiana Revised Statutes of 1950.

The District is located in Denham Springs, Louisiana. The purpose of the District is to provide sanitation services to customers within the boundaries of the District. The board is composed of three board members appointed by the Livingston Parish Council. Board members are compensated for meeting attendance at the rate of \$60.00 per meeting.

Livingston Parish Sewer District Two was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the Constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Livingston Parish Sewer District Two is considered a component unit of the Livingston Parish Council. As a component unit, the accompanying financial statements should be included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33,

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

1. Summary of Significant Accounting Policies (Continued)

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation (Continued)

Accounting and Financial Reporting for Nonexchange Transactions, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities available to the District for the purpose of providing goods and services to the public are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are user charges for the services provided by the enterprise funds. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

1. Summary of Significant Accounting Policies (Continued)

B. Cash and Cash Equivalents (Continued)

those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents. As of December 31, 2009, the District held no funds classified as investments.

D. Inventories

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year. As of December 31, 2009, the District had no significant inventory.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the

Livingston Parish Sewer District No. 2

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Estimated Lives
Infrastructure assets	40
Land improvements	40
Buildings and building improvements	40
Furniture and fixtures	5-10
Vehicles	5
Equipment	3-10

The costs of normal maintenance and repairs that do not add to the value of the asset or materiality or extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

H. Compensated Absences

Employees of the District can earn sick leave based on the number of hours worked each pay period. At this time the District has no provisions for leave carryover; therefore, a leave accrual was not recorded in the financial statements,

In accordance with GASB Statement No.16, *Accounting for Compensated Absences*, no liability has been accrued for unused employee sick leave.

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

1. Summary of Significant Accounting Policies (Continued)

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the municipality, which are either unusual in nature or infrequent in occurrence.

Livingston Parish Sewer District No. 2

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

L. Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

At December 31, 2009, the District had cash and cash equivalents (book balances) totaling \$785,558, as follows:

	<u>December 31, 2009</u>
Demand Deposits	\$ 87,154
Trust Funds	698,404
Total	<u>\$ 785,558</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance of the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2009, the District has \$1,127,519 in cash and cash equivalents deposits (collected bank balances), consisting of \$101,983 in demand deposits and \$698,572 in Trust Funds. The demand deposits of \$101,983 are secured from risk by \$250,000 of federal deposit insurance and the \$698,572 of Trust Funds consists of United States treasury securities not required to be collateralized.

For the fiscal year ended December 31, 2009, \$785,558 of Cash and Cash Equivalents were restricted to meet the Bond Sinking Fund and Contingency Fund deposit requirements and Impact Fee revenue receipts as disclosed at Note 4.

Livingston Parish Sewer District No. 2

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2009**

3. Receivable

At December 31, 2009, the District recorded \$75,030 in customer accounts receivable. Billing services for the District are contracted with Ward 2 Water District of Livingston Parish and the City of Denham Springs. Accounts receivable at fiscal year-end includes the amounts collected but not yet remitted to the District. Customer accounts are written off as deemed uncollectible and any allowance for uncollectible accounts is deemed immaterial at fiscal year end.

4. Restricted Assets

The following is a summary of restricted assets at December 31, 2009 relating to Bond covenant funding requirements and Impact Fee revenue receipts.

	<u>December 31, 2009</u>
Restricted Asset Requirement	
Bond Reserve Account	\$ 386,970
Bond Contingency Account	217,927
Bond Sinking Account	204,848
Impact Fee Funds	<u>15,364</u>
Total Required Restricted Assets	825,109
 Total Restricted Cash & Cash Equivalent Balances	 <u>785,558</u>
Underfunded Balance	\$ <u><u>(39,551)</u></u>

For the year ended December 31, 2009, the District's required restricted cash & equivalent balances were underfunded by \$39,551. See Note 7 for detail of Bond covenant requirements and related failures as of and for the year ended December 31, 2009.

Livingston Parish Sewer District No. 2

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2009**

5. Capital Assets

A summary of changes in capital assets during the fiscal year ended December 31, 2009, is as follows:

	<u>Beginning Balance 12/31/2008</u>	<u>Additions and Reclassifications</u>	<u>Deletions and Reclassifications</u>	<u>Ending Balance 12/31/2009</u>
Capital Assets Being Depreciated:				
Buildings	\$ 393,252	\$ -	\$ -	\$ 393,252
Machinery and Equipment	628,551	283,344	-	911,895
Utility System	11,966,382	-	-	11,966,382
Vehicles	106,357	-	-	106,357
Total Capital Assets Being Depreciated:	13,094,542	283,344	-	13,377,886
Less Accumulated Depreciation	(4,093,486)	(378,632)	-	(4,472,118)
Capital Assets Being Depreciated, Net	9,001,056	(95,288)	-	8,905,768
Land	138,134	-	-	138,134
Construction in Progress	11,103	-	-	11,103
Total Capital Assets, Net	\$ 9,150,293	\$ (95,288)	\$ -	\$ 9,055,005

During the fiscal year ended December 31, 2009, capital assets increased by \$283,344 due to the installation of three new pumps. The total of \$11,103 for construction in progress consists of accumulated costs for planned oxidation pond improvements, with construction planned for fiscal year 2010. Depreciation expense for the fiscal year ended December 31, 2009 totaled \$378,272.

Livingston Parish Sewer District No.2

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2009**

6. Long-Term Debt

The following is a summary of loan transactions of the Sewer District for the year ended December 31, 2009:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
USDA 1984 Revenue Bonds, Loan 92-01	\$ 669,949	\$ -	\$ (28,855)	\$ 641,094	\$ 30,008
Sewer Revenue Refund Bonds, Series 1997- B	130,000	-	(30,000)	100,000	32,000
Sewer Revenue Bonds, Series 2004	<u>4,650,000</u>	<u>-</u>	<u>(55,000)</u>	<u>4,595,000</u>	<u>55,000</u>
Total Long-Term Debt	<u>\$ 5,449,949</u>	<u>\$ -</u>	<u>\$ (113,855)</u>	<u>\$ 5,336,094</u>	<u>\$ 117,008</u>

Livingston Parish Sewer District No. 2

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2009**

6. Long-Term Debt (Continued)

Bonds Payable as of December 31, 2009 is as follows:

Revenue Bond - \$1,047,000

Sewer Revenue Bonds, Loan 92-01 sold to USDA, dated

02/28/1984, due in annual installments of principal and interest of

\$62,077 through 02/28/2024 - interest at 5.0%

\$ 641,094

Revenue Bond - \$365,000

Sewer Revenue Refunding Bonds, Series 1997-B, dated 05/13/1997,

due in annual installments of principal and interest varying from

\$32,338 to \$37,800 through 02/28/2012 - interest at 6.0%

100,000

Revenue Bond - \$4,650,000

Sewer Revenue Bonds, Series 2004, dated 07/21/2004, due in

annual installments of principal and semi-annual installments of

interest - annual interest rates varying from 1.625% to 5.2%, with

bonds maturing 03/01/2044

4,595,000

\$ 5,336,094

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

6. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding at December 31, 2009, including interest payments of \$5,488,733 are as follows:

Year Ending December 31,	USDA 1984 Revenue Bonds \$1,047,000	Series 1997-B Revenue Refunding Bonds \$365,000	Series 2004 Revenue Bonds \$4,950,000	Total
2010	\$ 62,077	\$ 38,800	\$ 280,864	\$ 380,940
2011	62,077	37,080	283,794	382,951
2012	62,077	37,100	281,559	380,736
2013	62,077	-	279,249	341,326
2014	62,077	-	281,761	343,838
2015 to 2019	310,385	-	1,405,098	1,715,483
2020 to 2024	310,385	-	1,403,279	1,713,664
2025 to 2029	-	-	1,397,863	1,397,863
2030 to 2034	-	-	1,393,976	1,393,976
2035 to 2039	-	-	1,394,600	1,394,600
2040 to 2044	-	-	1,379,450	1,379,450
Total	<u>\$ 931,155</u>	<u>\$ 112,180</u>	<u>\$ 9,781,492</u>	<u>\$ 10,824,827</u>

7. Flow of Funds and Restrictions on Use

On February 28, 1984, the District issued \$1,047,000 of United States Farmer's Home Administration (now referred to as USDA Bonds) Sewer Revenue Bonds. The bonds were issued at an annual interest rate of 5.0%, and are due in annual installments of \$62,077 through February 28, 2024.

On May 13, 1997, the District issued \$365,000 of Sewer Revenue Refunding Bonds, Series 1997-B, at an interest rate of 6.0%, with the bonds maturing on February 28, 2012.

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

7. Flow of Funds and Restrictions on Use (Continued)

On July 24, 2004, the District issued \$4,650,000 of Sewer Revenue Bonds, Series 2004, at an interest rate varying from 1.625% to 5.2% with bonds maturing March 1, 2044.

The below listed bond covenant requirements were in effect as of and for the year ended December 31, 2009 and applied to each of the issuances previously noted.

Sewerage System Bond and Interest Sinking Fund (the Sinking Fund): Each month the District shall transfer from the Sewer Revenue Fund to the regularly designated fiscal agent bank of the Issuer (which must be a member of the Federal Deposit Insurance Corporation), in advance on or before the 20th day of each month of each year a sum equal to ½ of the principal and interest falling due on the next principal and interest payment date, together with such additional proportionate sums as may be required to pay said principals and interest as the same respectively become due. Money in the Sinking Fund shall be deposited as trust funds and shall be used solely, and is hereby expressly and exclusively pledged, for the purpose of paying principal and interest on the bond and parity bonds. Said fiscal agent shall make available from the Revenue Bond Sinking Fund to the paying agent such funds as are available from the Sinking Fund, at least ten days in advance of the date on which each payment of principal or interest falls due, funds fully sufficient to pay promptly the principal and interest so falling due on such date.

As of and for the year ended December 31, 2009, all required bond principal and interest installments for the 1997-B and 2004 issuances had been made as required. However, at December 31, 2009, all required bond principal and interest installments for the 1984 issuance had not been made as required. As reflected in Note 4, Restricted Cash and Equivalent balances as of December 31, 2009 were underfunded.

Sewerage System Revenue Bond Reserve Fund (the Reserve Fund): Each month the District must transfer into the Reserve Fund, in advance on or before the 20th day of each month of each year, a sum as equal to 5% of the sum required by applicable bond covenants, such payments to continue until an amount of money has been accumulated in the Reserve Fund equal to the highest combined principal and interest requirements for a succeeding twelve (12) month period on such bonds payable from the Reserve Fund. The amount that must be deposited each month to the Reserve Fund is equal to 5% of the required monthly interest and principal installments for outstanding parity bonds.

The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the Revenue Bond Sinking Fund as to which there would otherwise be default. In the event that additional pari passu

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

7. Flow of Funds and Restrictions on Use (Continued)

bonds are issued hereafter in the manner provided by the resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the day of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds.

As of and for the year ended December 31, 2009, all required Reserve Fund monthly deposits for the District had been made as required, and the Reserve Fund was fully funded.

Sewerage System Depreciation and Contingency Fund (the Depreciation and Contingency Fund): Each month the District shall transfer from the Sewerage System Revenue Fund an amount in advance on or before the 20th day of each month of each year beginning with the first month following completion of the improvements and extensions to the System financed with the proceeds of the Bonds, the sum equal to 5% of the amount, but not less than \$168 per month for each parity bond, to be paid monthly into the Sinking Fund. All monies in the Depreciation and Contingency Fund may be drawn on and used by the District for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the Sewerage System that will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and Reserve Fund.

As of and for the year ended December 31, 2009, all required Depreciation and Contingency Fund monthly deposits for the 1997-B and 2004 issuances had been made as required. However, at December 31, 2009, all required Depreciation and Contingency Fund monthly deposits for the 1984 issuance had not been made as required. As reflected in Note 4, Restricted Cash and Equivalent balances as of December 31, 2009 were underfunded.

Rate Covenant Factor: With the issuance of the 2004 Sewer Revenue Bonds, the District (the Issuer) covenants to fix, establish, maintain and collect, so long as any principal and interest is unpaid on the Bonds, such rates, fees, rents or other charges for the services and facilities of the System, and all parts thereof, and to revise the

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

7. Flow of Funds and Restrictions on Use (Continued)

same from time to time whenever necessary, as will always provide revenues in each fiscal year sufficient to (i) pay the reasonable and necessary expenses of operating and maintaining the System in each fiscal year; (ii) to provide Net Revenues in an amount sufficient to make payments deposits in the Sinking Fund and the Reserve Fund established by the Prior Bond Resolutions and maintained by the Bond Resolution for the payment of the principal and interest on the bonds, the Parity Bonds, and any Additional Parity Obligations issued hereafter; (iii) provide Net Revenues in an amount equal to one hundred twenty-five percent (125%) of the required deposits to the Sinking Fund for the security and payment of the Bonds and the Parity Bonds; (iv) make all other payments required by the Bond Resolution; and (v) pay all other obligations or indebtedness payable out of the Revenues for such fiscal year. The issuer further covenants that such rates, fees and rents or other charges shall not at any time be reduced so as to be insufficient to provide adequate revenues for such purposes.

"Net Revenues" means, for the period in question, the net income of the District, determined in accordance with generally accepted accounting principles, including all revenue derived from services fees and other income received from the operation of the District. Excluded from Net Revenues are gains on the sale or other disposition of investments or fixed or capital assets, investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service, amounts received by way of government grants, and capital outlay expenditures. There shall be added to such net income losses on the sale or other disposition of investments or capital assets and depreciation and amortization allowances.

For the fiscal year ended December 31, 2009, the District recorded "Net Revenues" less than the required amount to meet the required percentage ratio explained in the preceding paragraph.

8. Debt Covenant Failure

As of and for the year ended December 31, 2009, the District had failed several debt covenant requirements relating to the bond resolutions of the 1984 Series, 1997-B Series, and 2004 Series Bond issuances. See Note 7 for detail of Bond covenant requirements and instances of non-compliance as of and for the year ended December 31, 2009.

9. Restricted and Designated Net Assets

At December 31, 2009, Livingston Parish Sewer District Two recorded \$825,109 in Restricted Net Assets (Restricted for Capital Projects and Debt Service), representing the

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

9. Restricted and Designated Net Assets (Continued)

District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

10. Intergovernmental Agreement

Billing services for the District are contracted to the City of Denham Springs and Waterworks District No. 2 of Livingston Parish. In addition, the District provides sewer maintenance services, primarily with Livingston Parish Sewer District One, and recorded a total of \$150,644 in outside maintenance revenue for the fiscal year ended December 31, 2009.

11. Risk Management

The District is exposed to various risks of loss related to theft, damage or destruction of assets, torts, injuries, natural disasters, and many unforeseeable events. The District purchases commercial insurance policies and bonds for any and all claims related to the aforementioned risks. The District's payment of the insurance policy deductible is the only liability associated with these policies and bonds.

12. Long-Term Commitment

On August 18, 2009, the Board of Commissioners of the District voted to adopt a Resolution requesting the Livingston Parish Council (the Council) proceed with a bond issue not to exceed \$2,500,000 through the Louisiana Local Government Environmental Facilities and Community Development Authority in order to provide funds for the District to acquire, construct, extend and improve the sewer system for the District. The Board of Commissioners also voted to authorize entering into a Local Service Agreement between the Livingston Parish Council and the District, in accordance with the provisions of Louisiana Revised Statutes 33:1321 – 1337, which provides for financing agreements between political subdivisions.

The bonds were issued on December 22, 2009, with scheduled maturities through 2039. The bonds were issued in the name of the Livingston Parish Council and are recorded on the books of the Council. The Council will administer the construction funds as they are spent on the construction of the sewer system. According to the provisions of the Local Service Agreement, the Council agreed to deposit the proceeds of the bonds into a construction account to enable the District to finance the projects, fund the reserve fund for the bonds and

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

12. Long-Term Commitment (Continued)

pay the cost of issuance of the bonds while the District agreed to pay the payment obligations to the Trustee, on behalf of the Council, in accordance with the debt covenant requirements of the loan from current Net Revenues of the District.

Following is a schedule that lists the various projects and projected costs of each along with amounts spent and the financings costs of the bonds:

Project Name	Projected Costs	Spent as of 12/31/09	Remaining Commitment
Pump Station Modification / Rehabilitation	\$ 1,860,000	-	\$ 1,860,000
Miscellaneous Repairs	100,000	-	100,000
Engineering Fees	148,000	-	148,000
Contingency, Fees, and Other Costs	81,950	-	81,950
	<u>2,189,950</u>	<u>-</u>	<u>2,189,950</u>
Bond Financing Costs:			
Original Issue Discount	22,365	22,365	-
Underwriters Discount	30,000	30,000	-
Cost of Issuance	94,857	58,626	36,231
	<u>147,222</u>	<u>110,991</u>	<u>36,231</u>
Debt Service Reserve Fund	<u>162,828</u>	<u>162,828</u>	<u>-</u>
	<u>\$ 2,500,000</u>	<u>\$ 273,819</u>	<u>\$ 2,226,181</u>

As of December 31, 2009, no amounts had been paid by the District to the trustee for sinking fund payments as provisions of the Local Service Agreement stipulated payments began January 25, 2010. A total of \$4,719,047 is anticipated to be paid to the trustee on behalf of the Livingston Parish Council by the District by the end of 2039 as provided by the Local Service Agreement.

Livingston Parish Sewer District No. 2

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2009**

12. Long-Term Commitment (Continued)

The annual requirements of principal and interest and for sinking fund payments from operations per the Local Service Agreement are as follows:

<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Annual Sinking Fund Requirements</u>
2010	\$ -	\$ 79,222	\$ 79,222	\$ 154,901
2011	45,000	113,975	158,975	158,600
2012	45,000	112,850	157,850	161,642
2013	50,000	111,663	161,663	161,246
2014	50,000	110,413	160,413	159,996
2015 - 2019	280,000	521,938	801,938	810,704
2020 - 2024	345,000	456,297	801,297	808,766
2025 - 2029	435,000	368,791	803,791	813,751
2030 - 2034	550,000	250,625	800,625	812,292
2035 - 2039	<u>700,000</u>	<u>93,275</u>	<u>793,275</u>	<u>677,150</u>
	<u>\$ 2,500,000</u>	<u>\$ 2,219,047</u>	<u>\$ 4,719,047</u>	4,719,047
Less:				
Contribution to Debt Service Reserve Fund				<u>(162,828)</u>
Total Commitment Due				<u>\$ 4,556,219</u>

Livingston Parish Sewer District No. 2

Notes to the Financial Statements As of and for the Year Ended December 31, 2009

12. Long-Term Commitment (Continued)

On December 22, 2009, an additional Local Service Agreement was made by and between the District and related party Livingston Parish Sewer District No. 1 (Sewer District No. 1) which obligates Sewer District No. 1 to its pro rata share of the monthly principal and interest payment obligation of the District. The pro-rata share has been set at 30% of the monthly principal and interest payments of the District.

Future expected annual receipts from Sewer District No. 1 as outlined in the Local Service Agreement by and between the District and Sewer District No. 1 are as follows:

<u>Ending</u>	<u>Future Annual Receipts</u>
2010	\$ 46,470
2011	47,580
2012	48,493
2013	48,374
2014	47,999
2015 - 2019	243,211
2020 - 2024	242,630
2025 - 2029	244,125
2030 - 2034	243,688
2035 - 2039	<u>203,145</u>
	<u>\$ 1,415,714</u>

REQUIRED SUPPLEMENTAL INFORMATION (PART II)

Budget to Actual Comparison

Schedule of Insurance

Schedule of Compensation Paid to Board Members

Schedule of Sewer Rates

Schedule of Sewer Customers

LIVINGSTON PARISH SEWER DISTRICT NO. 2
Denham Springs, Louisiana

Budget to Actual Comparison
For the Year Ended December 31, 2009

	2009 Budget	2009 Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Sewer Fees	\$ 852,000	\$ 842,938	\$ (9,062)
Sewer #1 Maintenance Revenue	151,000	150,644	(356)
Permits & Inspection Fees	6,000	7,487	1,487
User & Hook-up Fees	6,000	6,470	470
Impact Fees	26,500	36,819	10,319
Other Operating Income	5,000	5,616	616
Total Operating Revenues	<u>1,046,500</u>	<u>1,049,974</u>	<u>3,474</u>
Operating Expenses			
Salaries and Wages	296,000	300,985	(4,985)
Payroll Taxes & Group Insurance	52,000	53,993	(1,993)
Per Diem	3,000	3,060	(60)
Amortization	7,500	7,620	(120)
Depreciation	345,000	378,632	(33,632)
Fuel/Oil Trucks	15,000	15,391	(391)
Insurance	87,000	72,544	14,456
Licenses & Permits	4,500	4,102	398
Office Expense	1,500	1,668	(168)
Other	14,400	12,574	1,826
Professional Fees	30,500	29,516	984
Repairs and Maintenance	213,000	228,734	(15,734)
Supplies	35,000	28,509	6,491
Telephone	18,500	17,602	898
Uniform Expense	5,000	4,775	225
Utilities	85,000	96,737	(11,737)
Total Operating Expenses	<u>1,212,900</u>	<u>1,256,442</u>	<u>(43,542)</u>
Operating Loss	<u>(166,400)</u>	<u>(206,468)</u>	<u>(40,068)</u>
Non-Operating Revenues (Expenses)			
Interest Income	2,000	1,665	(335)
FEMA Reimbursement	300,000	252,426	(47,574)
Interest Expense	(265,000)	(267,030)	(2,030)
Storm Expense	(46,000)	(45,686)	314
Total Non-Operating Expenses	<u>(11,000)</u>	<u>(58,625)</u>	<u>(49,625)</u>
Change in Net Assets	(177,400)	(265,093)	
Total Net Assets, Beginning	<u>5,215,824</u>	<u>5,215,824</u>	
Total Net Assets, Ending	<u>\$ 5,038,424</u>	<u>\$ 4,950,731</u>	

LIVINGSTON PARISH SEWER DISTRICT NO. 2
Denham Springs, Louisiana

Schedule of Insurance
For the Year Ended December 31, 2009

Insurance Company/ Policy Number	Coverage	Amount	Period
American Alternative Insurance Corp (AAIC) Policy # SD-IS-SP 9153563-2/0	Commercial Property	\$ 7,005,960	10/31/2009 to 10/31/2010
	General Liability:		
	General Aggregate	\$ 3,000,000	
	Each Occurrence	\$ 1,000,000	
	Management Liability:		
	General Aggregate	\$ 3,000,000	
	Each "Wrongful Act" or Offense	\$ 1,000,000	
	Equipment Floater (As Scheduled)	\$ 104,987	
CNA Surety Co. Bond # 0601 18306688	Employee Dishonesty (Position Schedule)	\$ 310,000	07/15/2009 to 07/15/2010
Louisiana Workers Comp Corp Policy # CAP 15296-B	Workers Comp at Statutory Limitations:		03/24/2009 to 03/24/2010
	Employers' Liability (Each Accident)	\$ 100,000	
	Employees' Liability (Each Accident)	\$ 100,000	
AmTrust Insurance Company of Kansas, Inc. Policy # KPP1004645 00	Commercial Auto:		03/16/2009 to 03/16/2010
	Liability (Comb. Single Limit- CSL)	\$ 500,000	
	Uninsured Motorist (CSL)	\$ 500,000	
	Physical Damage (As Scheduled)		

Note: The Employee Dishonesty Bond described above is issued separately for Livingston Parish Sewer District One. Other policies are issued jointly for Livingston Parish Sewer District One and Livingston Parish Sewer District Two.

LIVINGSTON PARISH SEWER DISTRICT NO. 2
Denham Springs, Louisiana

Schedule of Compensation Paid to Board of Commissioners
For the Year Ended December 31, 2009

<u>Name and Title/ Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
Kenneth Bingham, President (225) 665-6895	8850 Old Winchester Rd. Denham Springs, LA 70726	\$ 780	Until Re-appointed
Shevis Ball (225) 665-8836	39765 LA Hwy 16 Denham Springs, LA 70726	1,140	Until Re-appointed
J. Kyle Parker (225) 665-3851	36426 Lucas Drive Denham Springs, LA 70726	1,140	Until Re-appointed
		<u>\$ 3,060</u>	

LIVINGSTON PARISH SEWER DISTRICT NO. 2
Denham Springs, Louisiana

Schedule of Sewer Rates
For the Year Ended December 31, 2009

Effective June 1, 2008, a \$300.98 Tap Fee (plus road bore) plus additional Impact Fee as indicated below:

Sewer Fees	Impact Fee	Tap Fees
Residential Sewer Rates	\$1,547	3/4" Tap
\$15.00 - First 3,000 Gallons	\$1,602	1" Tap
\$1.50 - Per next 1,000 Gallons	\$4,776	1 & 1 1/4" Tap
\$17.00 - Residential with own Well	\$19,923	2" Tap
Commercial Sewer Rates	\$21,299	3" Tap
\$35.00 plus \$1.50 per 1,000 gallons - Up to 40,000 gallons	\$51,653	4" Tap
\$45.00 plus \$1.50 per 1,000 gallons - 40,000 gallons and over	\$109,926	6" Tap
\$45.00 - Commercial with own Well	\$314,819	8" Tap

LIVINGSTON PARISH SEWER DISTRICT TWO
Denham Springs, Louisiana

Schedule of Sewer Customers
For the Year Ended December 31, 2009

As of December 31, 2009, the District had the following number of customers:

	December 31, 2009
Customers	2,591
Total Customers	2,591

OTHER REPORTS

**MALCOLM M. DIENES, L.L.C.
LEROY J. CHUSTZ, C.P.A.**

Certified Public Accountants



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF THE
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Livingston Parish Sewer District No. 2
Denham Springs, Louisiana

We have audited the financial statements of the governmental activities of the Livingston Parish Sewer District No. 2 (the District), as of and for the year ended December 31, 2009, which comprise the Livingston Parish Sewer District Two's basic financial statements and have issued our report thereon dated September 30, 2010, which has been qualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

We did identify a certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses in internal control over financial reporting which are reported as findings 2009-1 and 2009-3.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance, reported as findings 2009-1 and 2009-2, respectively, in the accompanying Schedule of Findings and Questioned Costs, which is required to be reported under *Government Auditing Standards*.

The Livingston Parish Sewer District No. 2's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Livingston Parish Sewer District No. 2's Board of Commissioners, others within the entity, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Malcolm M. Dienes, L.L.C.

Leroy J. Chustz, CPA

September 30, 2010

**Livingston Parish Sewer District No. 2
Schedule of Findings and Responses
For the Year Ended December 31, 2009**

We have audited the basic financial statements of Livingston Parish Sewer District No. 2 as of and for the year ended December 31, 2009, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2009, resulted in a qualified opinion.

Section I Summary of Auditor's Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses ☒ Yes ☐ No Significant Deficiencies ☐ Yes ☒ No

Compliance

Compliance Material to Financial Statements ☒ Yes ☐ No

B. Federal Awards ☒ Not Applicable

Internal Control

Material Weaknesses ☐ Yes ☐ No Reportable Conditions ☐ Yes ☐ No

Type of Opinion On Compliance
For Major Programs

Unqualified ☐
Disclaimer ☐

Qualified ☐
Adverse ☐

Are there findings required to be reported in accordance with Circular A-133, Section .510(a)? ☐ Yes ☐ No

Was a management letter issued? ☐ Yes ☒ No

C. Identification of Major Programs:

CFDA Number(s)

Name of Federal Program (or Cluster)

Dollar threshold used to distinguish between Type A and Type B Programs: \$ _____

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133? ☐ Yes ☐ No

**Livingston Parish Sewer District No. 2
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2009**

Section II Financial Statement Findings

2009-1 Debt Covenant Failure

NON COMPLIANCE / MATERIAL WEAKNESS

Condition

Bond covenant requirements included in the Bond Agreements of the 1984 Series, 1997-B Series and 2004 Series issuances stipulate transaction processing, financial statement ratio maintenance, and certain other miscellaneous requirements be met on an ongoing basis in order to remain in compliance with the Bond Agreement(s).

Finding

Certain transaction processing and financial statement ratio maintenance requirements were not met as of and for the year ended December 31, 2009.

Recommendation

The District should ensure that the bond transaction processing requirements are being met on an ongoing basis and that financial statement ratios be evaluated and communicated to the respective Trustee and/or Bondholders in a timely manner in order to remain in compliance with the Bond Agreement(s).

Management's Response

The District suffered tremendous damage from the September 1, 2008 Hurricane Gustav event. In recovering from this storm, the District was required to pay substantial repair bills during fiscal 2009 causing cash on hand to decline to a low level. However, these hurricane event expenditures resulted in a receivable from FEMA and the State of Louisiana. These receivables are being collected even into late fiscal 2010. The financial trustee (Hancock Bank Trust) is now following procedures whereby the depositing of our monthly payments as required by the bond covenant is performed before the 20th day of each month for all sinking fund, reserve fund, and depreciation/contingency fund payments which we remit as required by the Bond Agreement(s). Additionally, effective January 1, 2010, sewer rate increases were implemented which will also ensure the future compliance to all bond covenant ratios.

2009-2 Timely Issuance of Audited Financial Statements
NON COMPLIANCE

Condition

Louisiana Revised Statute 24:517 requires that audited financial statements be issued within six (6) months of the close of the fiscal year.

Finding

The audited financial statements for the year ended December 31, 2009, were not issued timely as required by the above statute.

Recommendation

The District should ensure all transactions are accounted for and all financial statements are prepared timely to ensure enough time to complete the financial statement audit in the required amount of time.

Management's Response

Livingston Parish Sewer District No. 2 has had financial records ready for audit by the first week of April after the close of the 2008 and 2009 periods. Our 2008 auditor stated at the last hour (June 30, 2009) that it would take him an extra month due to work load, which he finished by the end of 7-31-09 for the 2008 audit. In 2009, the audit firm was purchased by another entity which delayed the start on the audit and a new engagement was entered into in May. The new firm has needed additional time regarding the new local service agreement research relating to the 12-22-09 Livingston Parish Council issuance of \$2,500,000 Series Revenue Bonds and expenditures due to Hurricane Gustav made in 2009.

2009-3 Disclosure of Long Term Commitment
MATERIAL WEAKNESS

Condition

On December 22, 2009, the Livingston Parish Council (the Council) issued \$2,500,000 of 2009 Series Revenue Bonds on behalf of the District relating to the lift station repair and refurbishment project. Additionally, the Council and the District entered into a Local Services Agreement obligating the District to make each of the required monthly principal and interest payments relating to the Bond through maturity.

Finding

The Local Service Agreement transaction was not originally evaluated and considered for inclusion in the notes to the financial statements as required by Generally Accepted Accounting

Principles, which would have resulted in incomplete disclosure in the District's Financial Statements as of December 31, 2009

Recommendation

Management of the District should take the necessary steps to ensure all material transactions entered into by the District are evaluated, recorded and disclosed as required by Generally Accepted Accounting Principles on timely and accurate basis.

Management's Response

Livingston Parish Sewer District No. 2 (the District) was advised by Livingston Parish Legal Counsel and Parish authorities (Parish Financial Advisor, Bond Counsel and Parish Treasurer) to record the Livingston Parish Bond Sale in the future as an expense obligation each year for the length of the bonds as per the Livingston Parish Council's sinking fund payment schedule. Legal direction was given at the time of the closing on December 22, 2009, that all assets were the property of Livingston Parish Council and that the Bond was their responsibility. A Local Service Agreement was signed by and between the District and the Livingston Parish Council to satisfy bond requirements prior to the closing. An additional Local Service Agreement by and between the District and related party Livingston Parish Sewer District No. 1 (Sewer District No. 1) to allocate payment of the bond requirements between the District and Sewer District No. 1. The District received all supporting local service agreements detailing the bond and payment requirements from the bond counsel during the spring of 2010 and was not able to consider for the disclosure the future commitment as of December 31, 2009. The District has budgeted, disbursed timely, and recorded all scheduled payments as per the Parish Council's Trustee schedule during 2010. The District will disclose all future obligations of this nature as they are incurred rather than when payments are scheduled.

Section III Federal Award Findings and Questioned Costs

NONE

**Livingston Parish Sewer District No. 2
Schedule of Prior Year Findings
For the Year Ended December 31, 2009**

Section I Internal Control and Compliance Material to Financial Statements

<u>Prior Year Finding Number</u>	<u>Description</u>	<u>Status at December 31, 2009</u>
2008-1	Timely Issuance of Audited Financials	Not in compliance See finding 2009-2

Section II Internal Control and Compliance Material to Federal Awards

N/A

Section III Management Letter

N/A

MALCOLM M. DIENES, L.L.C.
LERoy J. CHUSTZ, C.P.A.

Certified Public Accountants



September 30, 2010

To the Board of Commissioners of
Livingston Parish Sewer District Two

We have audited the financial statements of the governmental activities of Livingston Parish Sewer District No. 2 (the District) for the year ended December 31, 2009, and have issued our report thereon dated September 30, 2010, which has been qualified. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 10, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of depreciation expense and the useful lives of capital assets is based on historical results and policy guidelines. We evaluated the key factors and assumptions used to develop the capital asset policy in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of capital assets and related depreciation expense. Since 88% of total assets are comprised of depreciable capital assets, the estimate of useful lives is particularly significant.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit, except as disclosed in Footnote 8 to the Financial Statements.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has determined that the effects of the uncorrected trivial misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, during the course of the audit, management recorded cash restrictions for debt service of \$71,790 on the financial statements. Additionally, during the course of the audit, management recorded FEMA reimbursement revenue approved and received after year end of \$91,258 on the financial statements. Management also disclosed the Long Term Commitment as described in the Schedule of Findings and Responses as finding 2009-3. None of the remaining misstatements noted during the audit and corrected by management were material to the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Commissioners of Livingston Parish Sewer District No. 2 and management of Livingston Parish Sewer District No. 2 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Malcolm M. Dienes, L.L.C.

Leroy J. Chustz, CPA

September 30, 2010